

BEFORE THE STATE BOARD OF EQUALIZATION  
OF THE STATE OF CALIFORNIA

In the Matter of the Appeal of     )  
CALIFORNIA DENTAL POLITICAL         )  
ACTION COMMITTEE,                     )

Appearances:

For Appellant:     Alan **Buco**  
                                  Comptroller

For Respondent:    James C. Stewart  
                                  Counsel

O P I N I O N

This appeal is made pursuant to section 25667 of the Revenue and Taxation Code from the action of the Franchise Tax Board on the protest of the California Dental Political Action Committee against a proposed assessment of additional corporation income tax in the amount of **\$1,311.48** for the income year ended June **30**, 1975.

Appeal of California Dental Political Action Committee

Appellant is an unincorporated association operated primarily for the purpose of accumulating and disbursing political **campaign funds** contributed by members of the California Dental Association. The contributions are forwarded to appellant's Sacramento office where they are recorded and deposited in interest-bearing bank **accounts**. During the income year on appeal, appellant earned interest income from the accounts in the amount of **\$14,572**.

Prior to 1974, appellant qualified for and was granted tax-exempt **status** as an association organized and operated to support or defeat political candidates. (Rev. & Tax. Code, **§ 23701r**, subd. (a).) In 1974, the law granting tax-exempt status to political organizations was amended to provide for the taxation of all income, excluding campaign contributions earned or received by **such organizations**. (Rev. & Tax. Code, **§ 23701r**, subd. (b).) <sup>1/</sup> Pursuant to this change in the law, appellant **filed** a return for the income year ended June 30, **1975**, wherein it reported the interest income of \$14,572. Against that income, however, appellant offset deductions totaling \$47,296. The claimed deductions represent various expenses incurred by appellant in connection with its general operations, including the salary of its **full-time** secretary, rent and office expenses, promotional and travel expenses, and accounting expenses.

Respondent disallowed all of the claimed deductions on the ground that they represent expenses incurred by appellant in connection with its fund-raising activities. Respondent's action is based on a federal revenue ruling which states that the expenses incurred by a political organization are deductible only if directly related to the production of its taxable, as opposed to its tax-exempt income. (Rev. Rul. 21, 1974-1 Cum. Bull. **14**.) Appellant does not challenge the application of this rule to **the** facts of the instant appeal. **It is** appellant's contention that the expenses in question were, in fact, directly attributable to the production of its taxable interest income. Thus, the narrow issue presented for our resolution is whether the expenses were directly related to activities undertaken by appellant for the production of income.

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**1/** Section 23701r was amended again in 1976. (Stats. 1976, **ch.** '865.) However, the recent amendments have no bearing on the outcome of this appeal.

Appeal of California Dental Political Action Committee

The record on appeal indicates that appellant incurred the following operating expenses during its income year ended June 30, 1975:

<u>Expense</u>	<u>Amount</u>
Office Expense .	\$4,238
Telephone	1,867
Salaries	9,361
Mailings/Service	2,615
Rent	2,716
Miscellaneous Travel	15,449
Taxes/Licenses	4,861
Repairs/Maintenance	189
Legal/Accounting	1,815
Executive Committee	3,341
Payroll Taxes	888
Educational Material	393
Depreciation	193
Total	<u>\$47,926</u>

The fact that the above list represents all of appellant's general operating expenses for the year in question, coupled with the fact that appellant's primary activity involves the solicitation and disbursement of political contributions, suggests that a **substantial portion** of the reported expenses were incurred by appellant in connection with its fund-raising activities. However, it is highly unlikely that appellant could have earned the interest income without incurring some expense for 'secretarial, accounting, and mailing services.

Since appellant has made no attempt to allocate the expenses in question between its fund-raising and income-producing activities, we shall estimate the proper allocation on the basis of the evidence presented. (See Appeal of Estate of Samuel Cohen, et al., Cal. St. Bd. of Equal., Nov. 17 1964 ) ~~For this purpose,~~ we assume that all expenses incurred **by appellant** for the **solicitation**, collection, and disbursement of political contributions constitute expenses directly related to its **fund-raising** activities, while the expenses incurred in connection with the maintenance of the interest-bearing bank accounts constitute expenses directly related to appellant's income-producing activities. On the basis of the evidence presented, it is our opinion that \$580 of the reported expenses fall within the latter category.

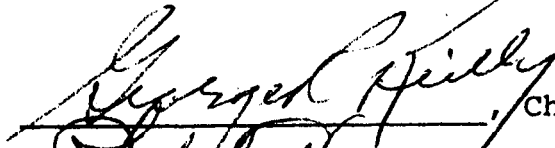

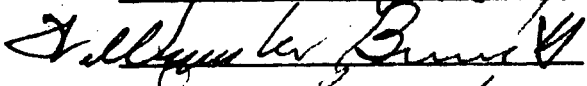

Appeal of California Dental Political Action Committee

O R D E R

Pursuant to the views expressed in the opinion of the board on file in this proceeding, and good cause appearing Eherefor,

**IT IS** HEREBY ORDERED, ADJUDGED AND DECREED, pursuant to section **25667** of the Revenue and Taxation Code, that the action of the Franchise Tax Board on the protest of the California Dental Political Action Committee against a proposed assessment of additional corporation income tax in the amount of **\$1,311.48** for the income year ended June 30, 1975, be and the same is hereby modified to reflect the allowance of a deduction in the amount of \$500.00. In all other respects the action of the Franchise Tax Board is sustained.

Done at Sacramento, California, this 1st day of March , 1978, by the State Board of Equalization.

  
\_\_\_\_\_, Chairman  
  
\_\_\_\_\_, Member  
  
\_\_\_\_\_, Member  
  
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